

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2008

May 2007

Annise D. Parker
City Controller



Trends: Fiscal Year 2008

Annise Parker
City Controller
City of Houston



Trends

Fiscal Year 2008

The information in the following pages was compiled by the Controller's Office with the goal of assisting City Council Members in putting the Administration's FY08 Proposed Budget into historical perspective. The trends presented here give the Council Members a broader picture and, hopefully, will help in the budget decision-making process.

Houston's economy continues to be robust. Our projections for General Fund revenues for each of the fiscal years '07 and '08 show an overall increase of approximately 5.99% and 3.49%, respectively (not including transfers and pension bond proceeds). FY08's projected increase reflects continued increases in property tax, sales tax and direct interfund revenues.

Our FY08 projection for General Fund revenue is \$3.5 million less than the Administration's FY08 proposed budget. Although our projection in property tax revenue is \$11.3 million higher than the Administration's, this is offset by decreases of \$7.9 million in sales taxes and \$3.8 million in municipal courts fines. The Controller's Office used the mid-range taxable values provided by the Harris County Appraisal District in May 2007. However, the Administration used the mid-range taxable values as of March 2007 and reduced the taxable value by an additional \$686 million.

In the enterprise funds, Aviation revenues are increasing in FY08 from the expansions and renovations at both major airports. Convention & Entertainment expenses are projected to increase substantially for scheduled increases in contracts and operations, as well as debt service, non-recurring capital projects and additional issuance of commercial paper. The Combined Utility System's revenues are increasing by 12.1%, or \$84.1 million over FY07, primarily due to the annual water and sewer rate adjustment.

Summary of Graphs



The numbers on each page are from the following sources:

1. FY06 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).
2. FY07* numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) estimates.
3. The FY08* General Fund revenues are the most current projections of the Controller's Office.
4. Unless otherwise noted, all other FY08* numbers are from the Administration's proposed FY08 Budget.

General Fund Revenues

(amounts expressed in thousands)

	FY04	FY05	FY06	FY07	FY08		Admin.'s	
Revenues	Actual	Actual	Preliminary	Controller's Estimate	Controller's Estimate	% Change [a]	Proposed Budget	Difference [a]
Property Tax	\$ 660,999	\$ 671,294	\$ 705,952	\$ 746,335	\$ 797,698 [b]	6.88%	\$ 786,368	11,330
Industrial Assessments	15,167	14,635	14,314	15,100	15,100	0.00%	15,700	(600)
Sales Tax	347,982	370,583	422,598	461,309	479,346 [c]	3.91%	487,216	(7,870)
Other Taxes	8,348	8,613	9,279	10,025	10,225	2.00%	10,163	62
Electric Franchise	76,394	77,760	97,274	99,638	98,080	-1.56%	98,080	0
Telephone Franchise	52,926	49,714	50,167	48,000	47,000 [d]	-2.08%	48,000	(1,000)
Gas Franchise	16,535	18,520	21,866	21,000	21,507	2.41%	21,507	0
Other Franchise	15,524	16,269	17,200	16,448	16,500	0.32%	16,890	(390)
License & Permits	15,271	17,692	18,086	18,000	18,000	0.00%	19,053	(1,053)
Intergovernmental	11,176	18,958	26,989	42,652	35,339 [e]	-17.15%	35,339	0
Charges for Services	39,875	39,856	41,115	44,688	43,000	-3.78%	43,385	(385)
Direct Interfund Services	57,056	61,233	39,505	44,531	47,281	6.18%	47,281	0
Indirect Interfund Services	14,647	11,031	14,895	14,198	14,354	1.10%	14,354	0
Muni Courts Fines	45,005	48,827	45,319	43,000	38,800	-9.77%	42,572	(3,772)
Other Fines	2,131	2,424	3,681	2,921	2,500	-14.41%	2,758	(258)
Interest	5,130	6,414	8,600	13,000	13,130	1.00%	11,950	1,180
Misc/Other	16,046	16,253	17,016	6,100	6,600 [f]	8.20%	7,372	(772)
Total	\$ 1,400,212	\$ 1,450,076	\$ 1,553,856	\$ 1,646,945	\$ 1,704,460	3.49%	\$ 1,707,988	\$ (3,528)
Transfer from Other Funds		1,028	2,042	2,450	9,500		9,500	0
Sale of Capital Assets			6,439	5,100	3,500		3,500	
Proceeds from Promissory Note			3,923					
Disaster Recovery Fund Transfer	6,800							
Pension Bond Proceeds		48,599	59,000	63,000	35,000		35,000	0
Total Revenues and Transfers	\$ 1,407,012	\$ 1,499,703	\$ 1,625,260	\$ 1,717,495	\$ 1,752,460	3.49%	\$ 1,755,988	\$ (3,528)

[a] The "Percentage Change" column compares our FY08 projection to our current FY07 projection, while the "Difference" column compares our FY08 projection to the Proposed Budget.

[b] Property Tax revenue is net of refunds and TIRZ payments. The Controller's FY08 estimate for Property Tax revenues is based on the mid-range taxable values provided by the Harris County Appraisal District on May 30, 2007. The projection assumes an estimated \$38.35 million in delinquent collections and an estimated \$48.5 million TIRZ payment. The Administration used an adjusted mid-range taxable value from March 2007 for it's budget, leaving a variance in FY 08 of \$11.33 million.

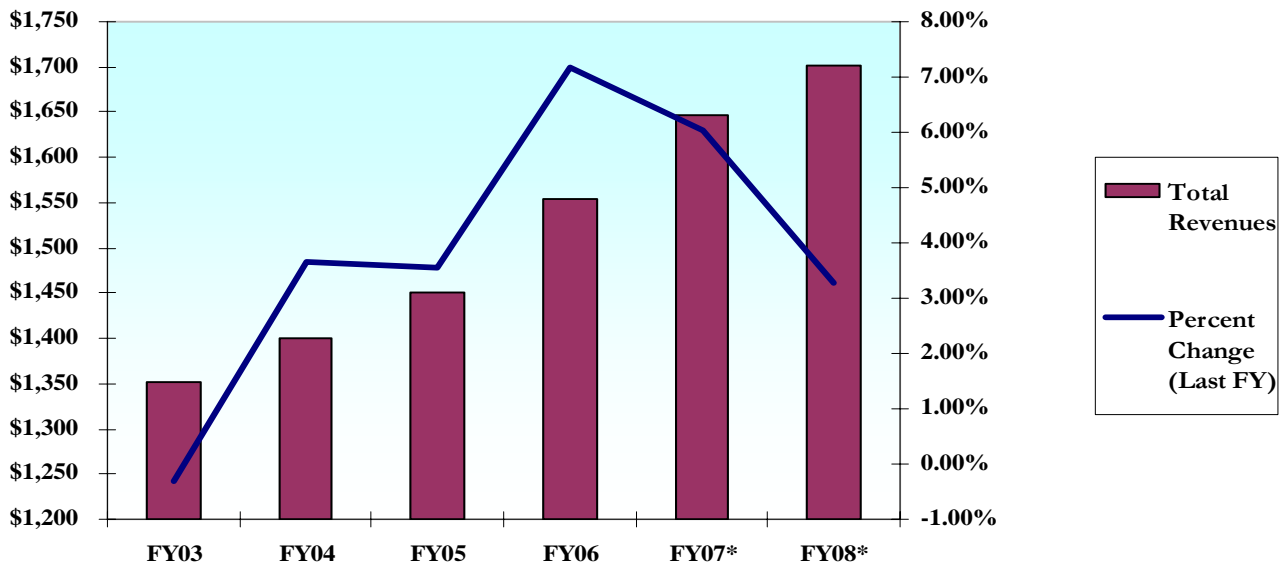
[c] Sales Tax revenue assumes a 3.91% increase on projected FY07 collections. The increase includes revenues for new Limited Purpose Annexations.

[d] Intergovernmental revenues decreased 17.2% in FY08. In FY07 the City received \$8.8 million of FEMA grant revenues as part of the Katrina and Rita disasters.

[e] Municipal Courts Fines decreased 9.77% as a result of moving revenues previously reported in the General Fund to a new Convention & Entertainment Parking Enterprise Fund.

General Fund Revenues

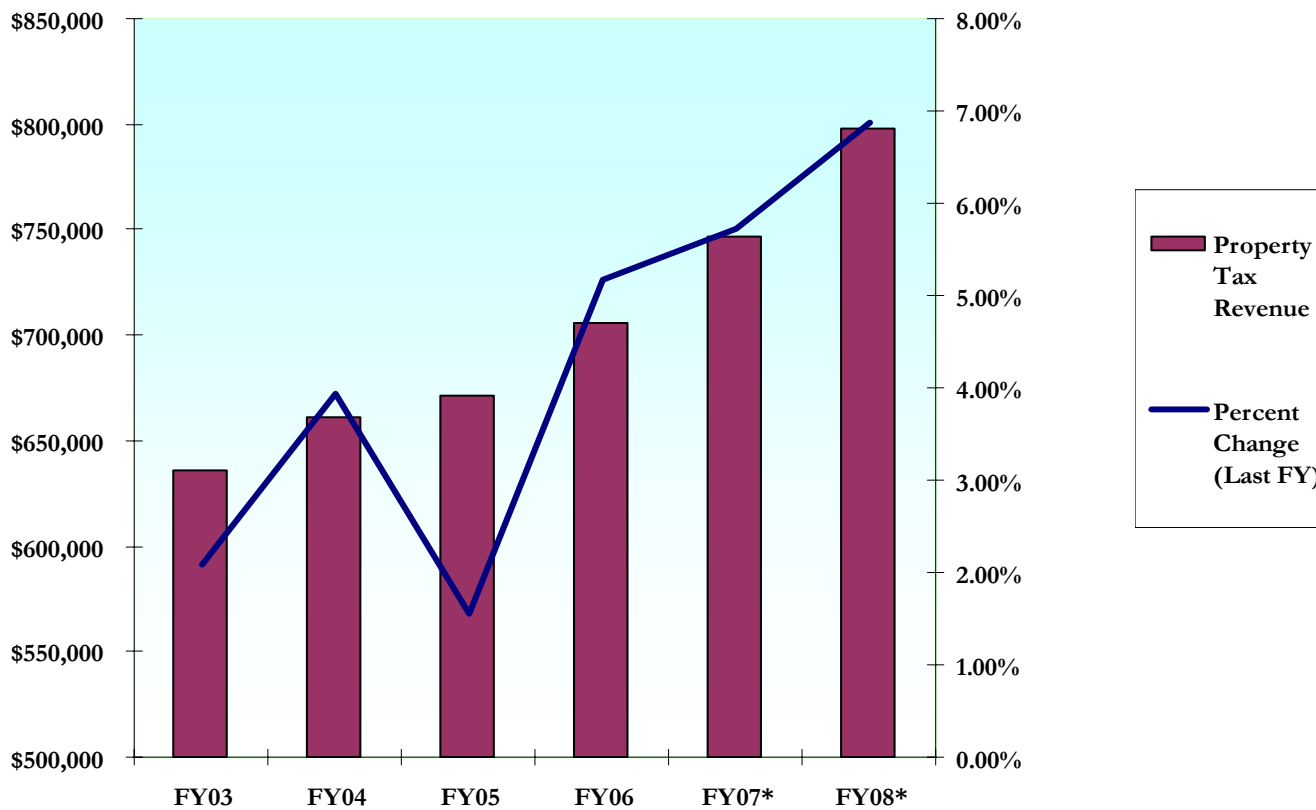
(amounts expressed in millions)



FY08 General Fund Revenue is projected to grow by \$57 million, or 3.49%, over our current FY07 projection. The projected increase consists mostly of \$47 million in Property Tax revenue and \$18 million in Sales Tax revenue and is offset by a decrease of \$7 million in intergovernmental and \$7 million in municipal courts fines.

Property Tax Revenue

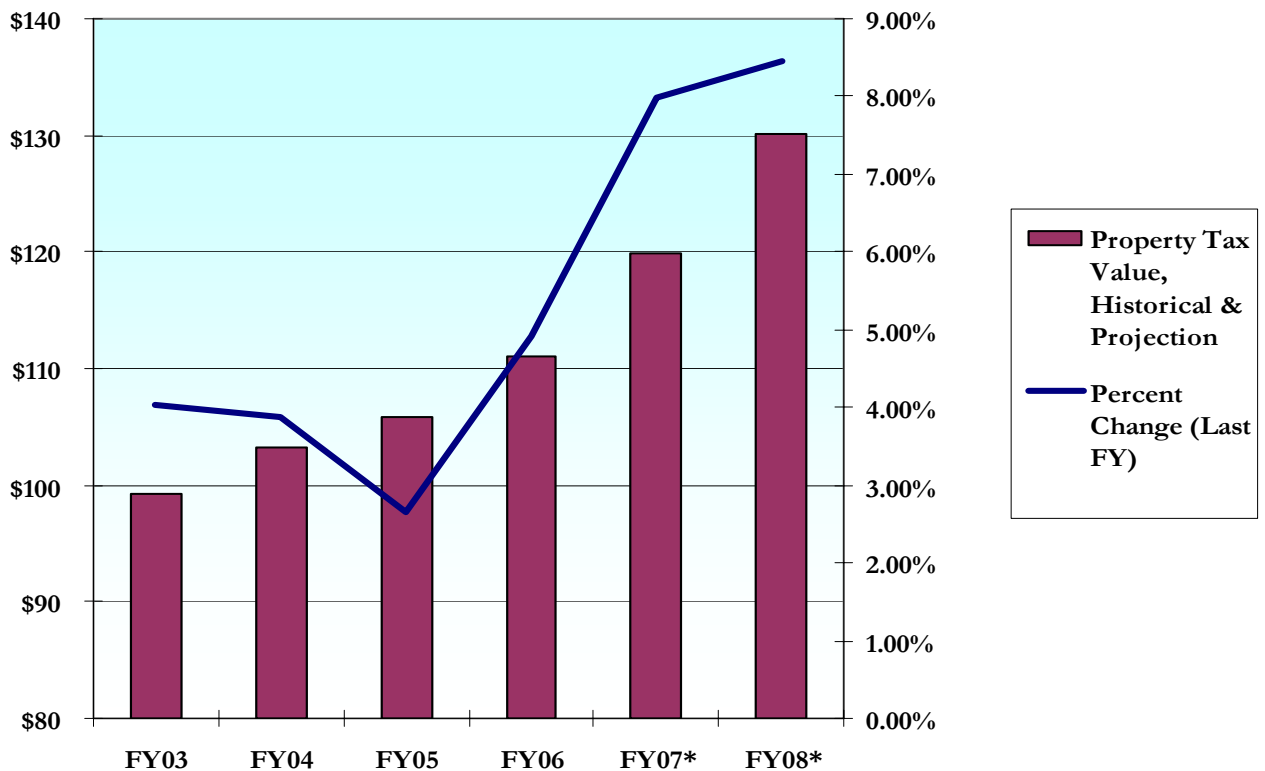
(amounts expressed in thousands)



Property Tax Revenue is projected to be up 6.88% over our FY07 projection. Tax Increment Reinvestment Zone payments are projected to increase in FY08 and include a projected budgeted payment of \$48.5 million. Our Property Tax revenue projection is based on a tax rate of 64.50 cents per \$100,000 valuation and a collection rate of 96.34%.

Taxable Values Historical & Forecast

(amounts expressed in billions)

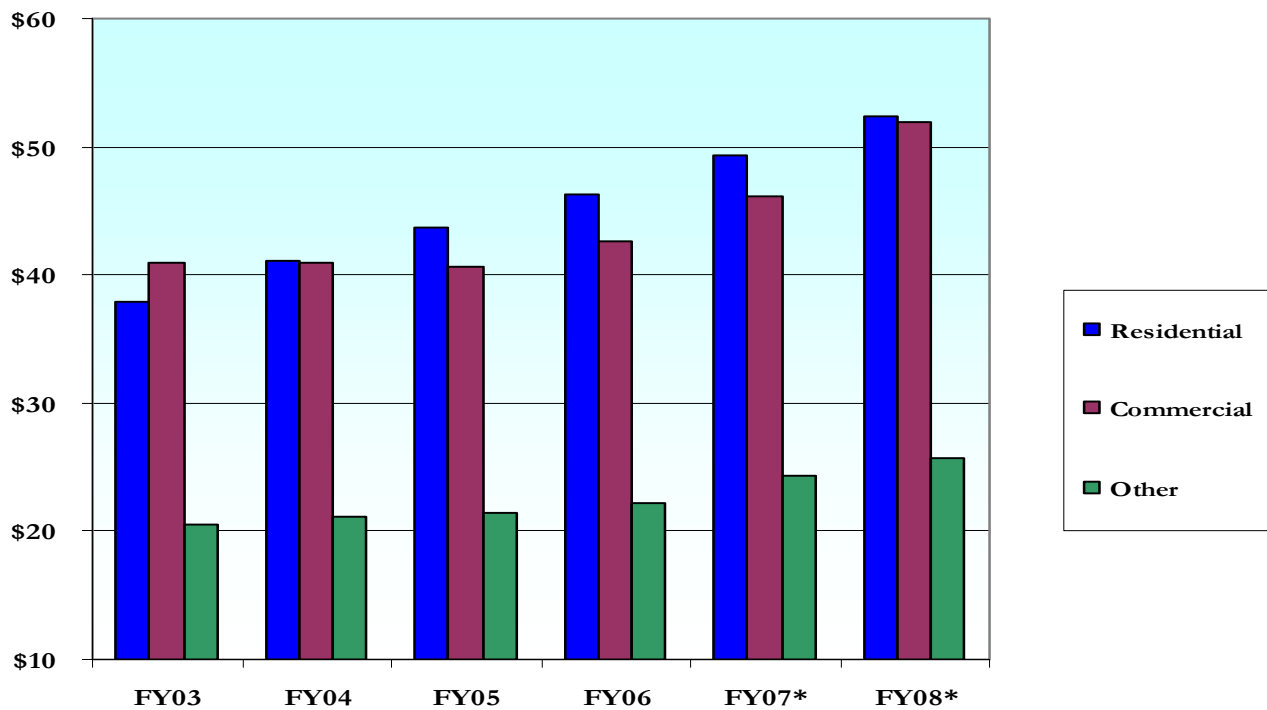


The Harris County Appraisal District provides a range (high, mid and low) of expected taxable values. The actual taxable values for FY07 have tended to be above their high projection. Using their mid-range projection for FY08, the projected increase in valuation is about 8.45%. These values are based on the Harris County Appraisal District's preliminary estimate of values, dated May 30, 2007.

Taxable Values By Property Type

Historical & Forecast

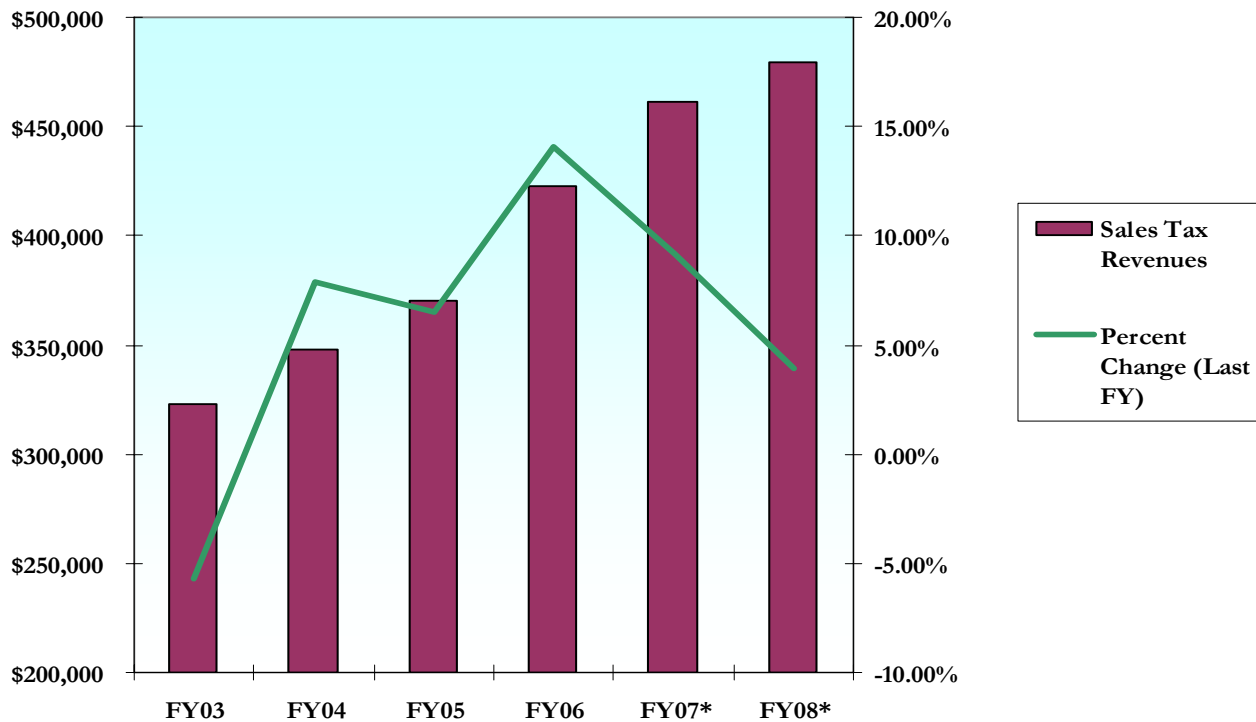
(amounts expressed in billions)



Residential and Commercial properties in the City of Houston make up 80% of the taxable values reported by the Harris County Appraisal District.

Sales Taxes Revenue

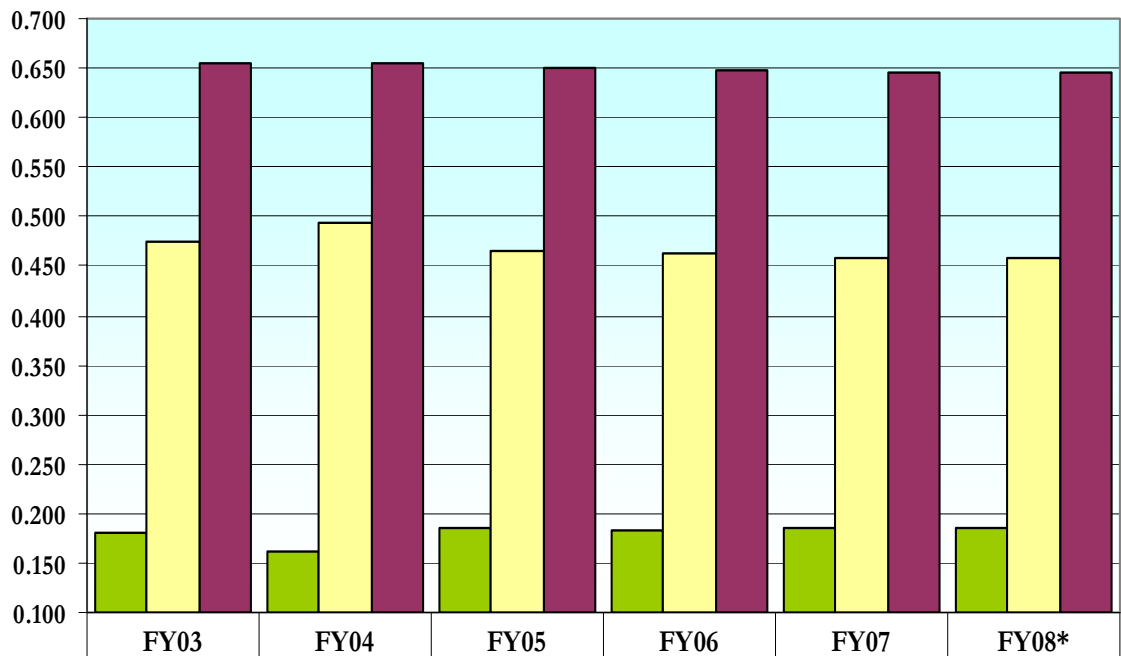
(amounts expressed in thousands)



We project Sales Tax Revenue to increase by 3.91% over the projected FY07 sales tax receipts. This increase includes revenues for new limited purpose annexations.

Property Tax Rate

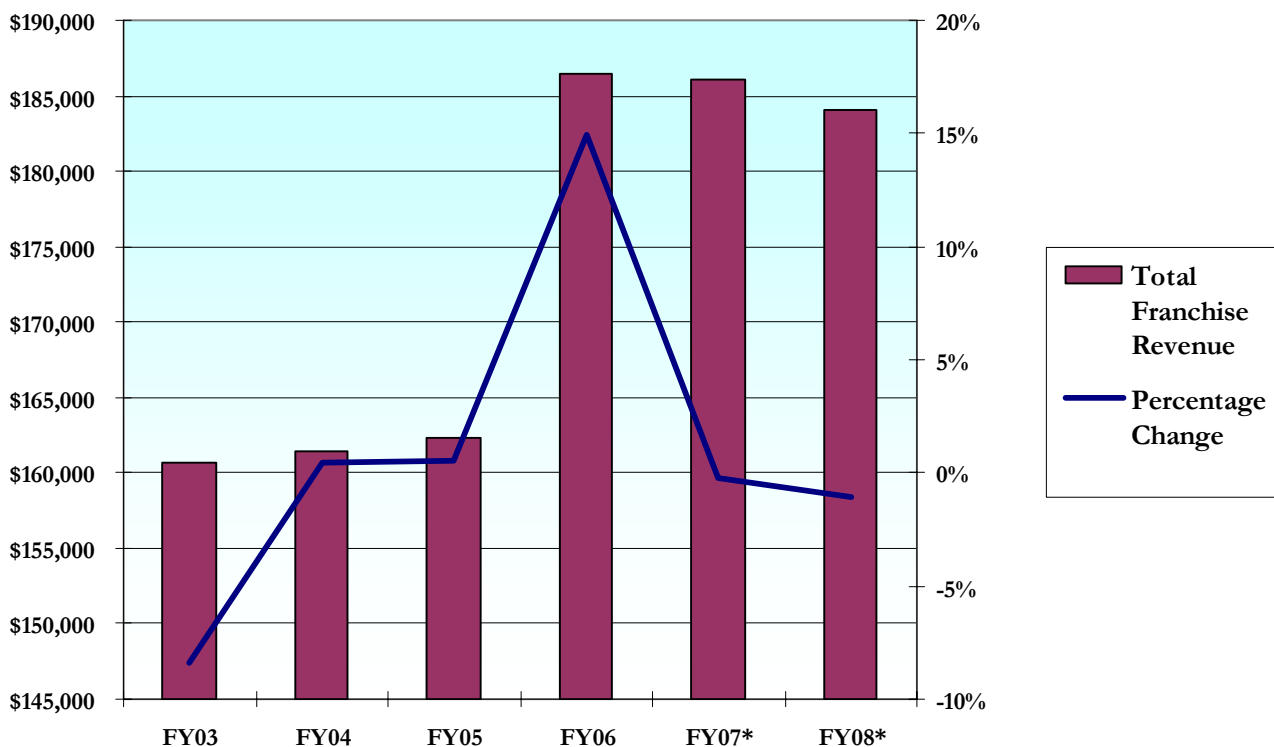
(Tax Rate per \$100 Valuation)



■ Debt Service	FY03	FY04	FY05	FY06	FY07	FY08*
■ M&O	0.18041	0.16048	0.18427	0.18391	0.18573	0.18573
■ Total	0.47459	0.49452	0.46573	0.46359	0.45927	0.45927
	0.65500	0.65500	0.65000	0.64750	0.64500	0.64500

Total Franchise Revenues

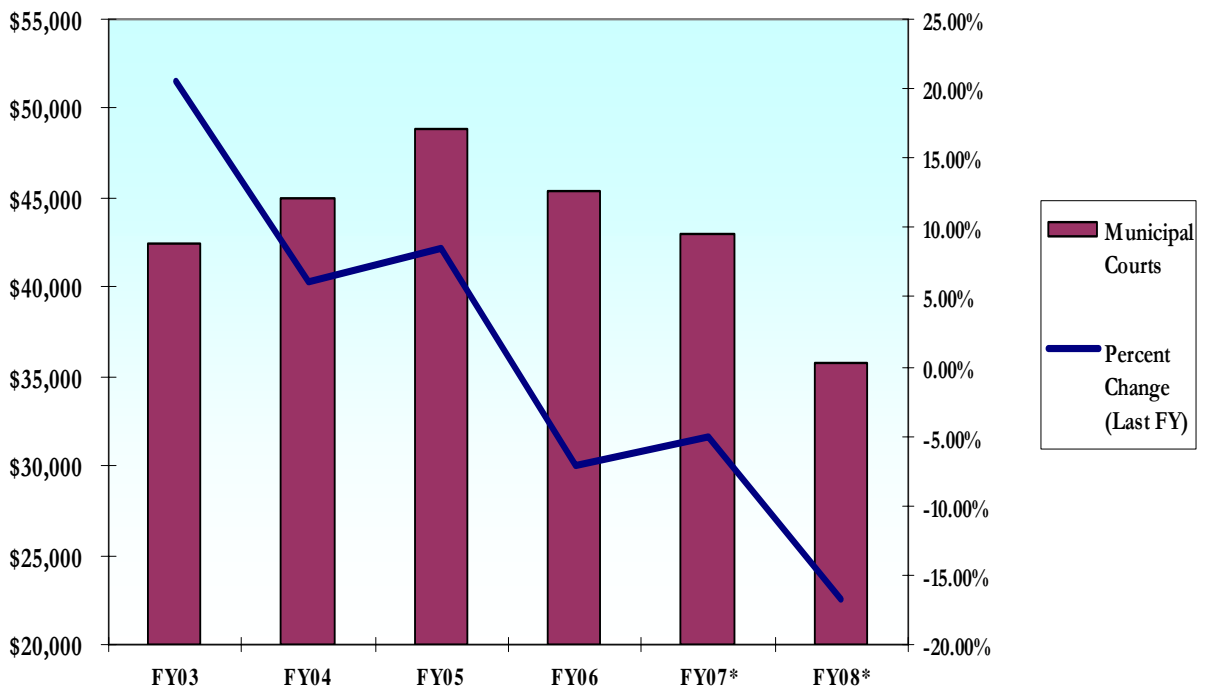
(amounts expressed in thousands)



Franchise Revenues are projected to decrease by a net \$2 million. The most significant changes are a decrease of \$1.6 million in Electricity Franchise revenues, in accordance with the CenterPoint Energy agreement, and a decrease of \$1 million in Telephone Franchise revenues due to a lower number of land lines as customers convert to wireless usage.

Municipal Courts Revenues

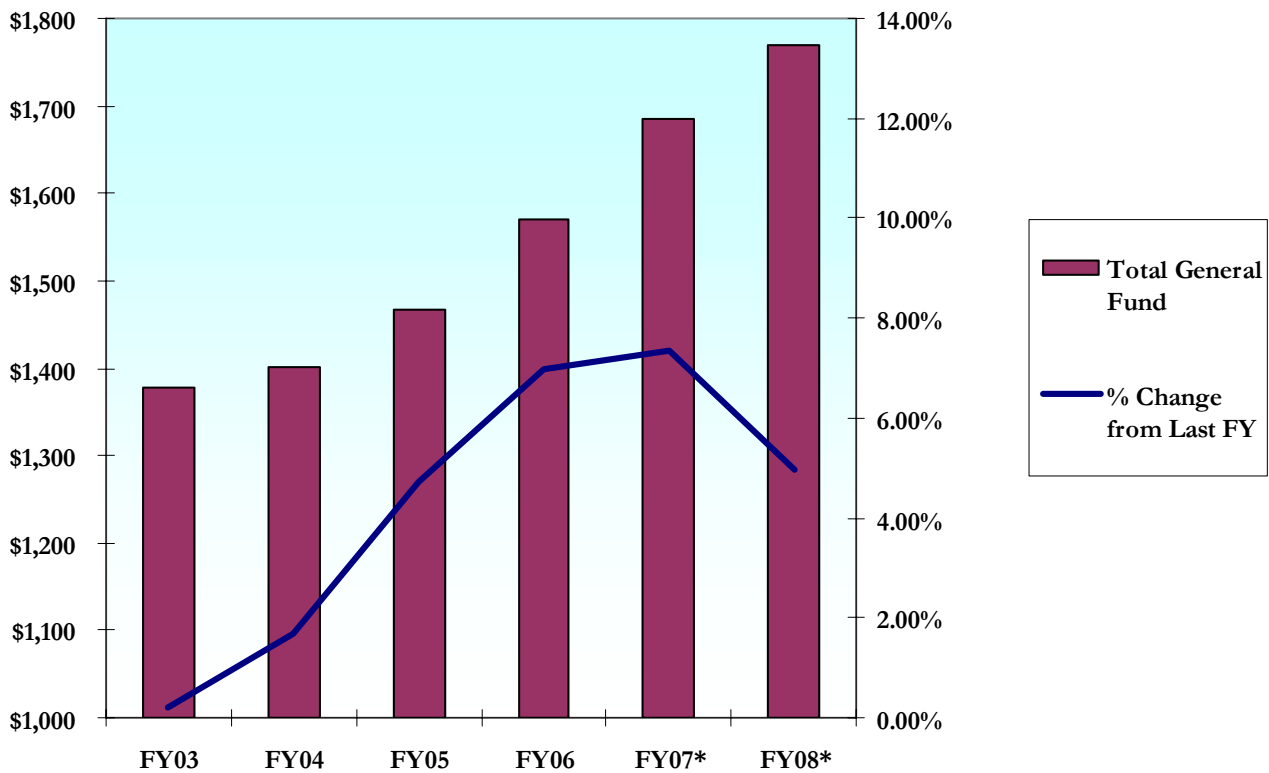
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits reflects an estimated \$4.2 million decrease for FY08. This is due to Parking Violations being budgeted in the new Parking Management Enterprise Fund within Convention & Entertainment Facilities in FY08.

General Fund Expenditures Budget

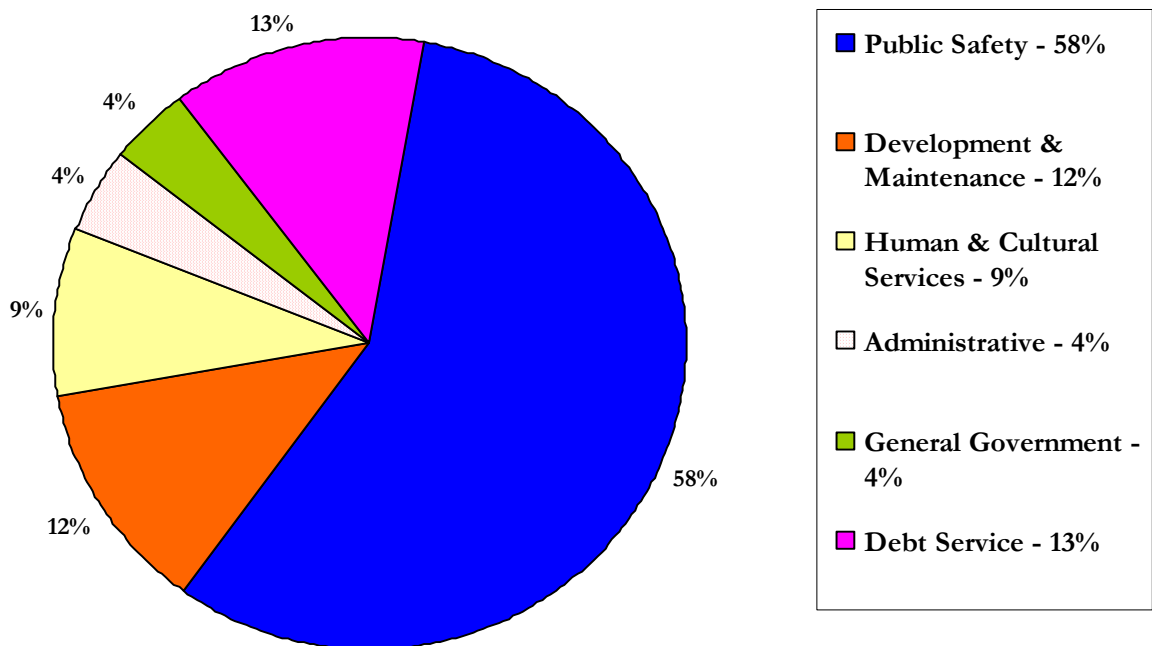
(amounts expressed in millions)



The General Fund Expenditure budget is up by 4.95%, an increase of \$83.5 million over our FY07 estimated expenditures.

General Fund Expenditures

Percent by Function for 2008

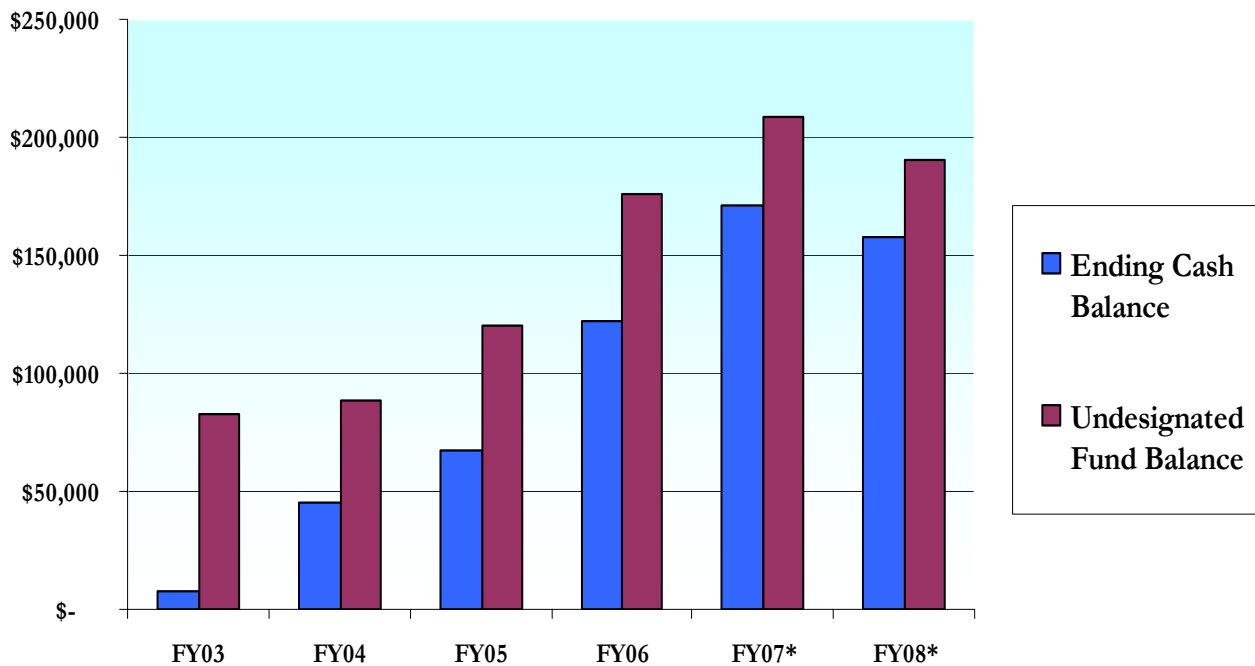


The largest category of expenditures is for Public Safety, which accounts for 58% of General Fund budgeted expenditures in FY08.

Cash vs. Fund Balance

General Fund

(amounts expressed in thousands)

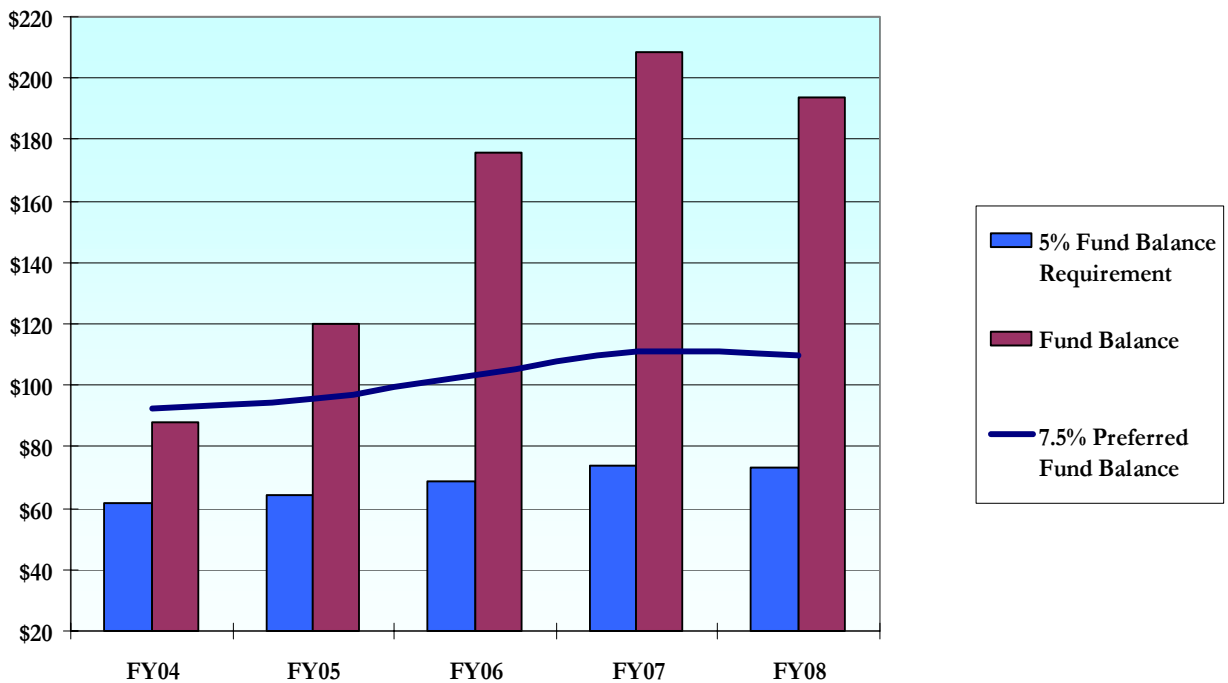


The Undesignated Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. This does not include the \$20 million in cash for the Rainy Day Fund. The Undesignated Fund Balance increased 46.2% in FY06 and is projected to increase 18.8% in FY07. The Fund Balance is expected to decrease by 8.6% in FY08.

City Ordinance 5% Fund Balance Requirement

General Fund

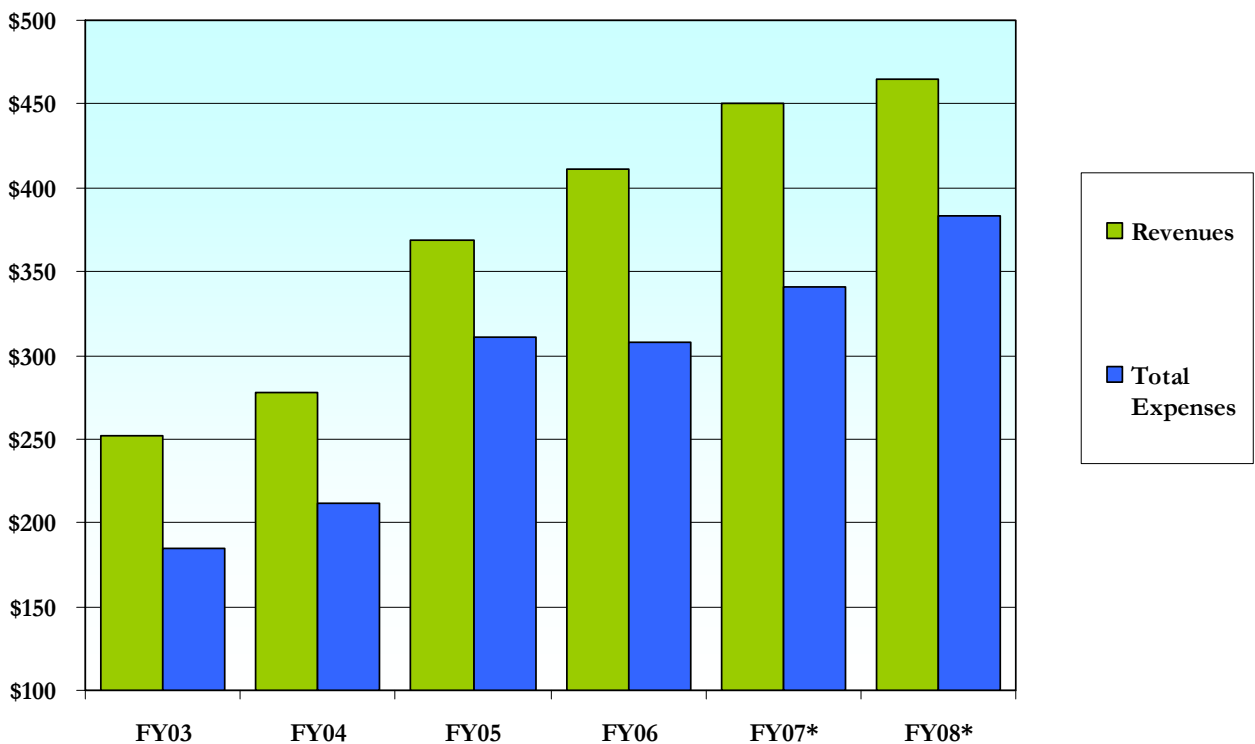
(amounts shown in Millions)



City ordinance requires an undesignated reserve of 5% of the adopted budget less debt. An undesignated reserve of 7.5% is preferred.

Aviation Revenues & Expenses

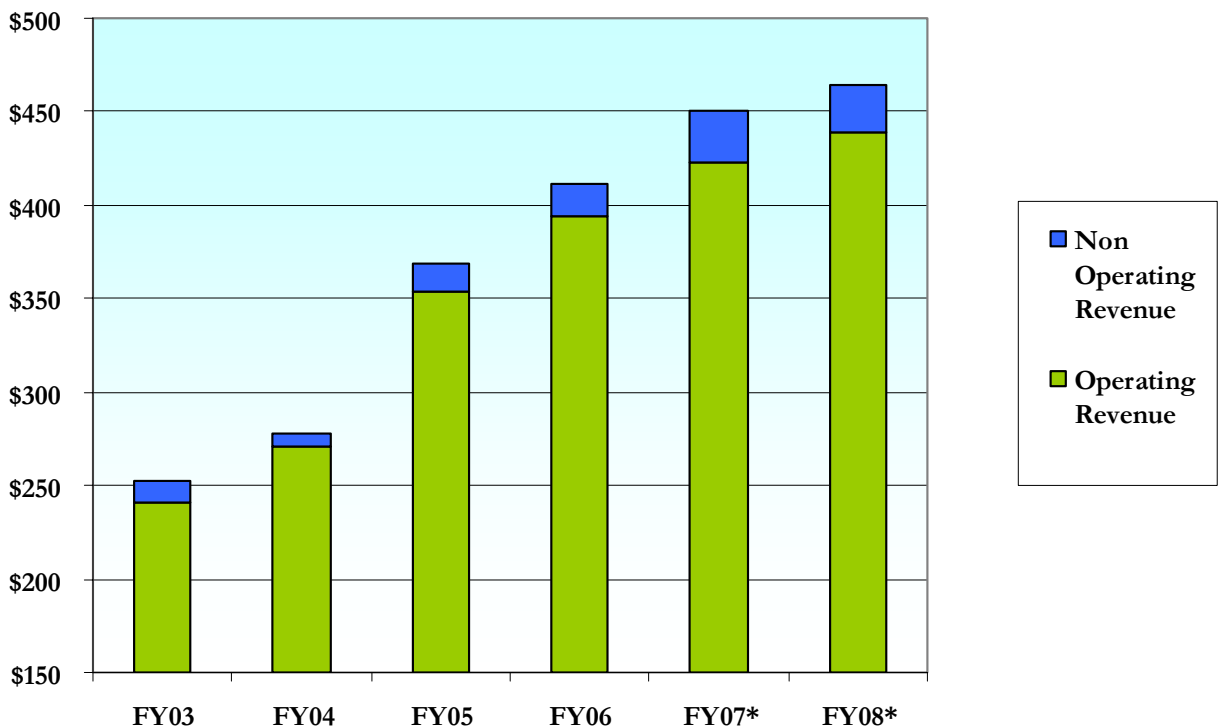
(amounts expressed in millions)



Projected revenues are increasing due to central concourse expansion at Hobby Airport (HOU), taxiway widening at Bush Intercontinental Airport (IAH), noise mitigation and sound insulation at IAH, and various security initiatives at both airports. Increases are also expected for parking and concession revenues attributed to increased passenger activity. Projected increases in expenses are based on higher energy costs, pension costs and improvements in customer and operation services.

Aviation Revenues

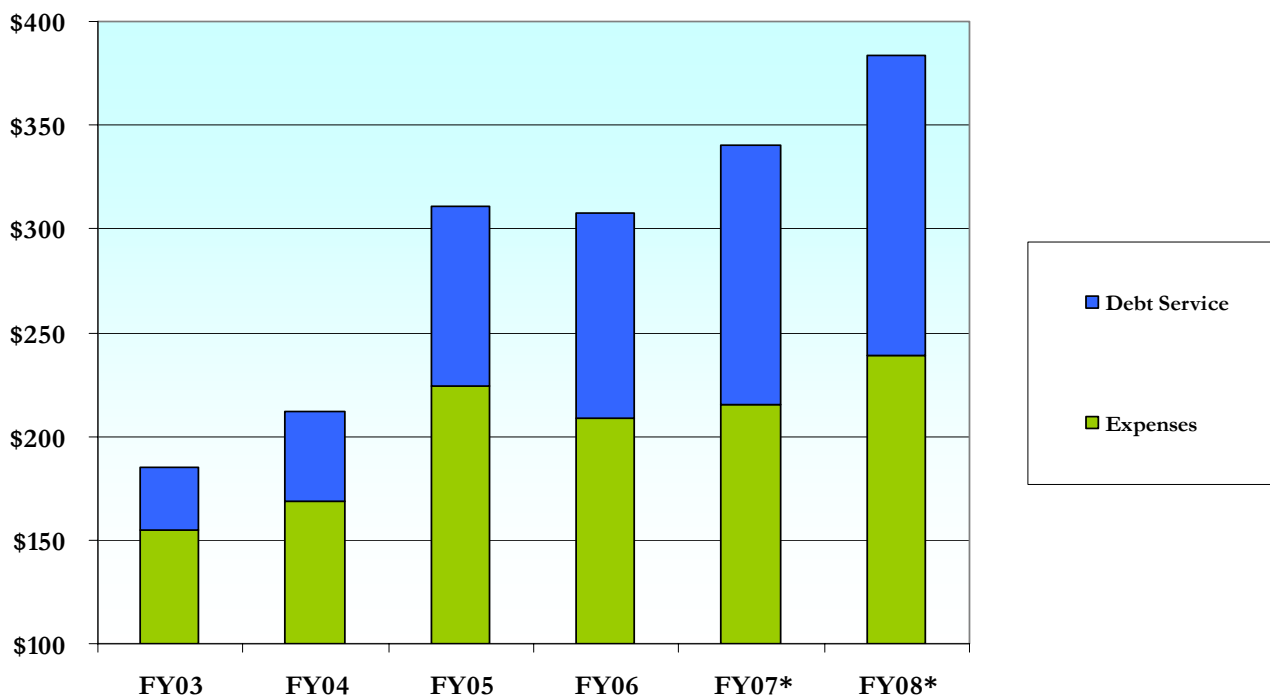
(amounts expressed in millions)



FY08 revenues are expected to increase 3.2%, or \$14 million, over the FY07 estimate. Cost recovery revenues will increase because of the renovations completed at HOU and IAH, as well as various airfield improvements, increased pension costs and increased electricity charges. Increases are also expected as a result of increased passengers contributing to parking and concession areas and interest earnings.

Aviation Expenses

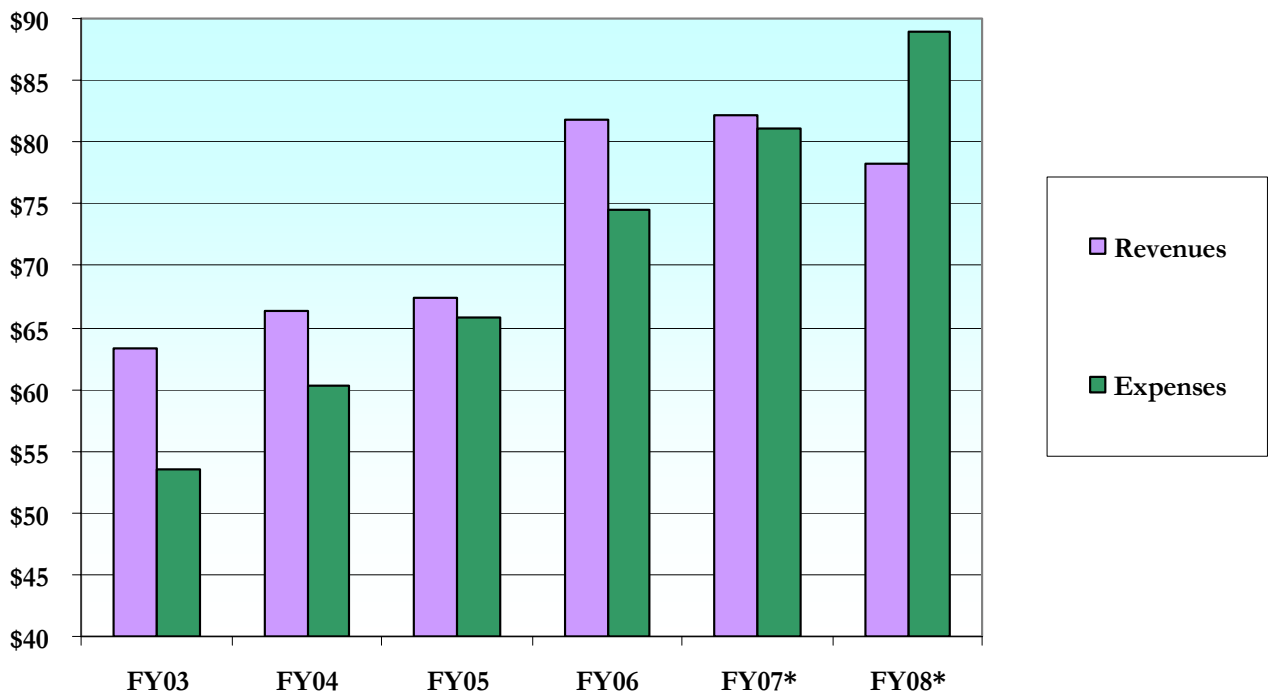
(amounts expressed in millions)



FY08 is expecting an increase in expenses of approximately 12% related to personnel, maintenance and energy costs. The FY08 debt service budget exceeds the FY07 estimate by 15%.

Convention & Entertainment Revenues & Expenses

(amounts expressed in millions)

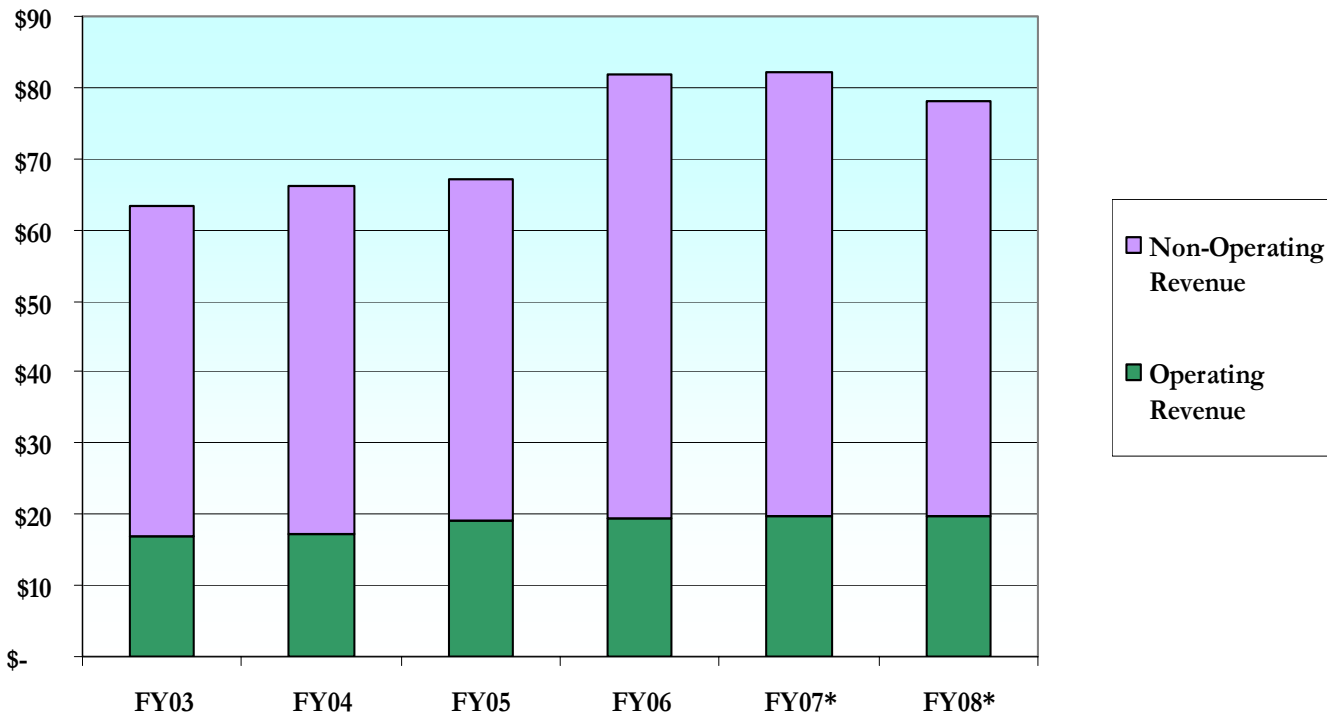


In FY08, total expenses will exceed revenues by \$10.6 million, due in part to ascending debt service schedules, non-recurring capital projects and additional commercial paper issued for the construction of the underground parking garage at Discovery Green.

Revenues are projected to decrease \$4.2 million in FY08 due primarily to prior year expenditure recoveries in FY07.

Convention & Entertainment Revenues

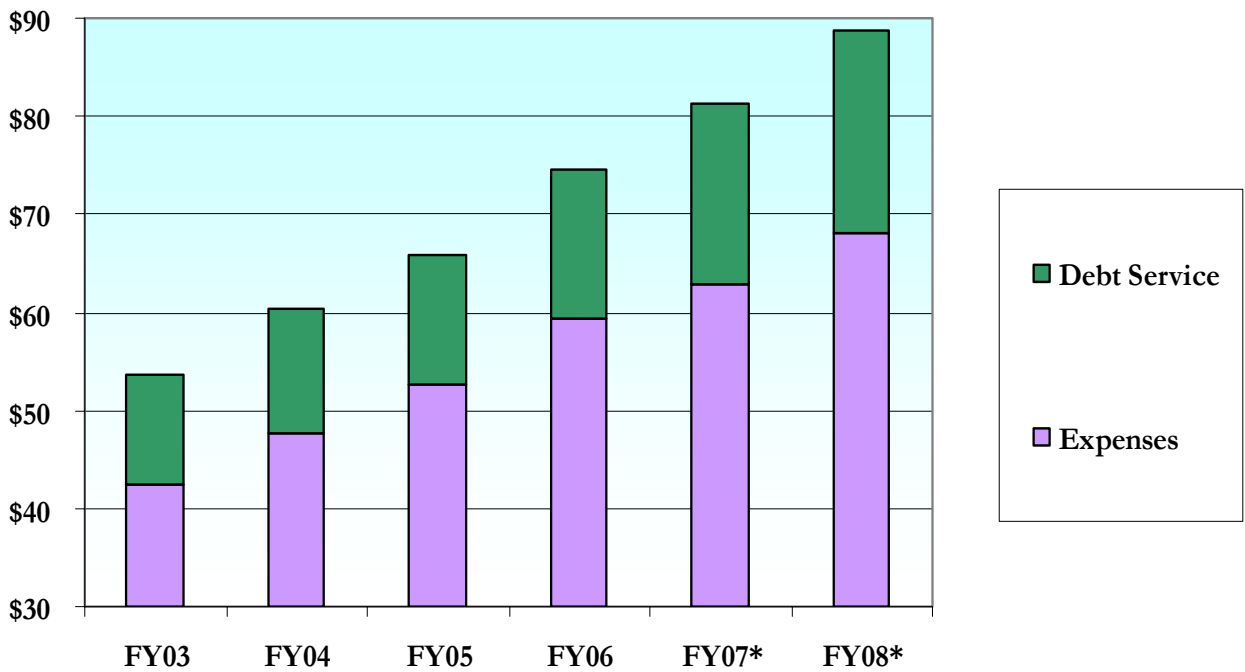
(amounts expressed in millions)



Convention & Entertainment total revenues are primarily generated from Hotel Occupancy Taxes reported as nonoperating revenues, and parking fees and facility rentals reported as operating revenues. Non-Operating Revenues are projected to decrease by \$4.2 million due to one-time reimbursements received in FY07 for the NBA All Star game, Tropical Storm Allison and a preferred return payment from the Houston Convention Center Hotel Corporation.

Convention & Entertainment Expenses

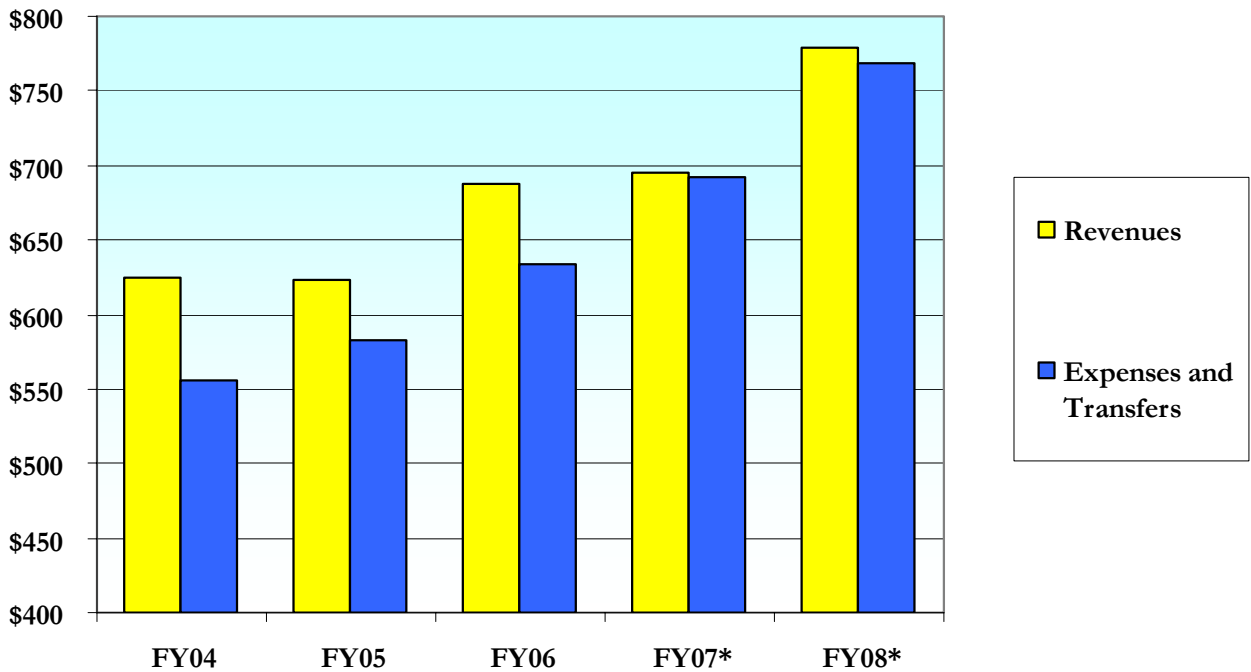
(amounts expressed in millions)



Convention & Entertainment expenses are expected to increase 9.4%, or \$7.6 million, due to scheduled increases in contracts associated with maintenance and operations, non-recurring capital projects, as well as our ascending debt service schedule and additional commercial paper issued for the construction of the underground parking garage at Discovery Green.

Combined Utility System Revenues and Expenses

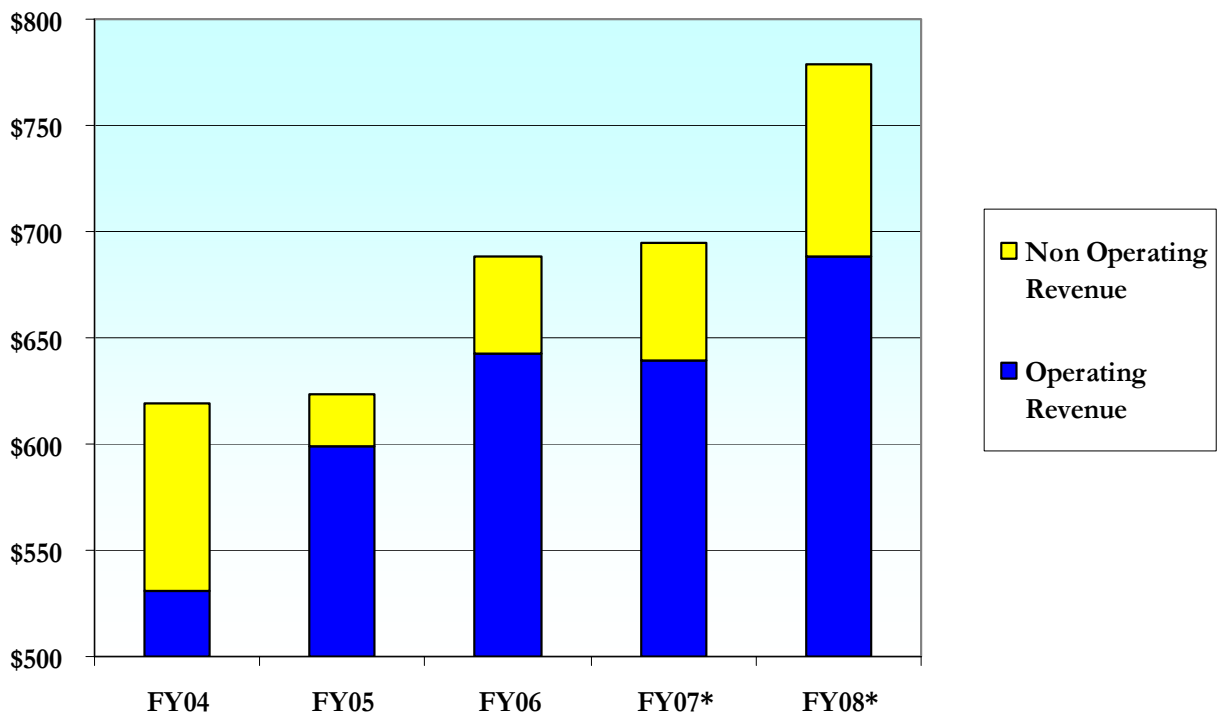
(amounts expressed in millions)



As directed by City ordinance: remaining funds after all expenses and other financial obligation are met (the Systems net revenues) are transferred within the CUS Enterprise Fund to the CUS General Purpose Fund. The funds within the CUS General Purpose Fund are available to pay for any lawful System purpose and for drainage purposes, subject to certain restrictions.

Combined Utility System Revenue

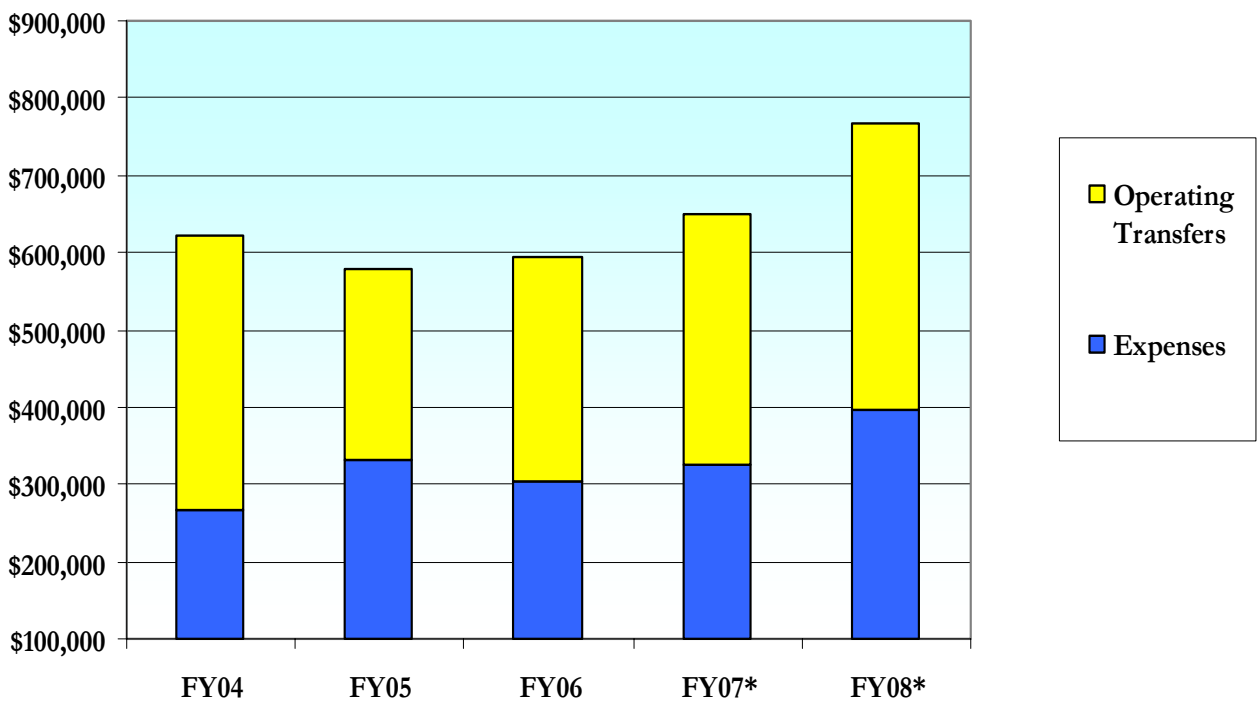
(amounts expressed in millions)



Revenues for the Combined Utility System operations are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Consumer Price Index for Houston, Galveston and Brazoria Counties. The rate adjustments for fiscal years 2006, 2007 and 2008 are 3.6%, 3.5% and 2.8% respectively. Other factors contributing to year-over-year differences in operating revenues are: rainfall, change in number of customers, regional subsidence regulations, and new MUD or municipal customers.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



The Combined Utility System operating and maintenance expenses reflect changes to energy expense components, employment expenses, additional resources to accommodate new customers or additional regulatory compliance. Operating transfers include the System's debt service payment obligations, as well as the drainage expense and debt service funding obligations. These numbers are the Administration's projections, not numbers generated by the Controller's Office.